

20044043E

Internal Revenue Service  
Director, Exempt Organizations  
Rulings and Agreements

Department of the Treasury  
P.O. Box 2508 - EODQA Rm. 7008  
Cincinnati, OH 45201

Date: MAR 29 2004

UIL 501.00-00

Employer Identification Number:

Person to Contact - I.D. Number:

Contact Telephone Numbers:

Phone

FAX

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under the provisions of section 501(c)(6) of the Internal Revenue Code of 1986 and its applicable Income Tax Regulations. Based on the available information, we have determined that you do not qualify for the reasons set forth on Enclosure I.

Consideration was given to whether you qualify for exemption under other subsections of section 501(c) of the Code. However, we have concluded that you do not qualify under another subsection.

As your organization has not established exemption from Federal income tax, it will be necessary for you to file an annual income tax return on Form 1041 if you are a Trust, or Form 1120 if you are a corporation or an unincorporated association.

If you are in agreement with our proposed denial, please sign and return one copy of the enclosed Form 6018, Consent to Proposed Adverse Action.

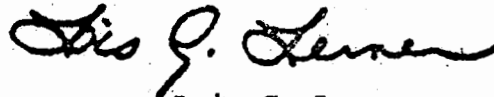
You have the right to protest this proposed determination if you believe it is incorrect. To protest, you should submit a written appeal giving the facts, law and other information to support your position as explained in the enclosed Publication 892, "Exempt Organizations Appeal Procedures for Unagreed Issues." The appeal must be submitted within 30 days from the date of this letter and must be signed by one of your principal officers. You may request a hearing with a member of the office of the Regional Director of Appeals when you file your appeal. If a hearing is requested, you will be contacted to arrange a date for it. The hearing may be held at the Regional Office or, if you request, at any mutually convenient District Office. If you are to be represented by someone who is not one of your principal officers, he or she must file a proper power of attorney and otherwise qualify under our Conference and Practice

20044043E

Requirements as set forth in Section 601.502 of the Statement of Procedural Rules. See Treasury Department Circular No. 230.

If we do not hear from you within the time specified, this will become our final determination.

Sincerely,

A handwritten signature in cursive script, reading "Lois G. Lerner".

Lois G. Lerner  
Director, Exempt Organizations  
Rulings and Agreements

Enclosures:

Enclosure I  
Form 6018  
Publication 892

## ENCLOSURE I

## Reasons For Denial of Exempt Status

Issues

Does the applicant, who is formed to provide early stage investment education and opportunities for women, qualify for exemption under section 501(c)(6) of the IRC?

Does the analysis and selection of companies seeking funding to give presentations to the members of the applicant constitute the provision of particular services for persons as distinguished from the promotion and improvement of business conditions in the investment industry for women?

Does the analysis and selection of companies seeking funding to give presentations to the members of the applicant serve as the operation of a regular business of a kind ordinarily carried on for profit?

Facts

You were incorporated in the state of \_\_\_\_\_ on \_\_\_\_\_  
You stated in your application that you meet \_\_\_\_\_ times a  
year for the purpose of providing early stage investment  
education and opportunities for \_\_\_\_\_. You state in your  
response dated \_\_\_\_\_ that \_\_\_\_\_

In the Home Page of your website you mention your Vision Statement in which you state the following:

are

. You go on to state that

Also in the Home Page of your website you mention your Mission Statement that states the following:

In the Guiding Principles from your website you state the following disclaimer:

Article II of your Articles of Incorporation

Section 1.2

Section 1.3

In the membership section of your website you mention the benefits of membership. The member is entitled to attend educational and social events as well as luncheon meetings. At the luncheon meetings two to four companies make presentations of their business plans for members' consideration. Afterward, there is time for discussion of members' observations and analysis. The member has access to screened deal flow through online database of deals as well as company presentations at each meeting. Member Discussion Areas Online forums are available for the member to confidentially discuss or comment on business plans with other members.

In the Frequently Asked Questions section of your website, the following question was posed: Must I make a minimum number (or amount) of investments each year in order to remain a member? - Your response to this question was the following:

"There is currently no requirement by that a member make a minimum number of investments each year. It is possible that will consider instituting such a requirement in the future in order to guarantee that membership is reserved for active investors".

In your response dated October 4, 2002 you state that is an accredited investors that meets times a year for the purpose of providing early stage investment education and investing opportunities for its members. The meetings are two hours in length and are comprised of an education portion and company presentations.

The reviews, analyzes and selects from entrepreneurs seeking funding, which companies will present at the Forum meetings. Of the companies that go through the screening process, three or four are selected to present to the Forum meeting. The screening process takes approximately four hours per Screening Committee member and is repeated six times a year. The Screening Committee also provides coaching for the selected companies on their presentations in a one-hour session per company. This coaching work requires an additional 3-4 hours of work by 3 members of the Screening Committee.

Entrepreneurs are both the applying and presenting companies. Applying companies post business plans to the website following the executive summary guidelines. When a company has been selected, the presenting entrepreneurs (companies) pay a fee and are allowed 15 minutes to present their business opportunity to members. They do not receive anything for the fee other

than a platform on which to present their business plan to your members who have the opportunity to invest in these companies. If a member chooses to invest with a company presented by they do so directly with the company.

In your faxed response dated you state that the education committee identifies the areas of educational needs and interests of members through a yearly organizational survey of the membership. With the results of the survey provides education materials for members via the website, seminars and through speakers at meetings. The amount of time spent on education during a meeting is fifty percent, thirty minutes at the beginning and then another thirty minutes at the end in forum discussion. You also state that you are in the process of implementing an internship program to introduce business students to early stage investing and nonprofit organization management. The organization is run by volunteer members, and independent outside vendors providing association management on an as needed basis.

In your application you indicated that your present and future sources of financial support were membership dues, corporate sponsorship and fees from the presenting companies. Your membership dues are \$ annually. You stated in your faxed response dated that

. The fees for a supporting sponsor are \$ for new sponsors and \$ for existing sponsors. For these fees the supporting sponsor receives such benefits as admittance to meetings, various means of advertising and link and profile on the website. The Sustaining Sponsor pays fees of \$ and receives in addition to the above benefits such benefits as access to member educational seminars, to members-only website and to Sponsor and Screening Committee participation. The Leadership Sponsor pays fees of \$ and receives in addition to the above mentioned benefits additional benefits such as a designated seat on the Sponsorship or Screening Committee, the opportunity to do one presentation at a meeting to introduce your company and services, and the opportunity to sponsor one educational or social event.

The expenses indicated in your application include event expenses such as luncheon expenses, various administrative expenses, and professional fees such as Association Management fees and website hosting fees.

Law

Section 501(a) of the Code provides for the exemption from Federal income tax of organizations described in section 501(c). Section 501(c)(6) of the Internal Revenue Code of 1986 provides exemption from Federal income tax for business leagues not organized for profit, and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations defines a business league as an association of persons having some common business interest, the purpose of which is to promote such common interest and to improve conditions in one or more lines of business. Its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

In Revenue Ruling 59-391, 1959-2 C.B. 151, exemption was denied to an organization composed of members engaged in different types of businesses, which was organized for the purpose of exchanging information on business prospects. Its members were found to have no common business interest other than a desire to increase their individual sales.

In Rev. Rul. 68-264, 1968-1 C.B. 264, a nonprofit organization whose members were engaged in a particular line of business was incorporated to operate as its primary activity a traffic bureau for members and nonmembers as a service in the shipment of their goods. This revenue ruling defines a particular service for the purposes of section 501(c)(6) of the Code as being activity that serves as a convenience or economy to the members of the organization in the operation of their businesses. Therefore, the organization was not exempt from Federal income tax under section 501(c)(6) of the Code.

In Rev. Rul. 67-182, 1967-1 CB 141, an organization whose only activity was providing a reference library used solely by its members in their businesses is not exempt from Federal income tax as an organization described in section 501(c)(6) of the Internal Revenue Code of 1954. The organization is making specialized information available to its members on a cooperative basis. This serves as a convenience and economy in the conduct of their businesses. Operation of the library as described is an activity which constitutes the performance of particular services for individual persons. Furthermore, since membership is limited and the facilities of the organization are made available only to participating members, the organization's activities are not aimed at the improvement of business conditions in the industry as a whole. Accordingly, the organization does not qualify for exemption from Federal income tax under section 501(c)(6) of the Code.

In Rev. Rul. 56-65, 1956-1 CB 199. a local organization whose principal activity consisted of furnishing particular information and specialized individual service to its individual members engaged in a particular industry, through publications and other means to effect economies in the operation of their individual businesses is performing particular services for individual persons. Such organization, therefore, is not entitled to exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954 as a business league even though it performs functions which are of benefit to the particular industry and the public generally.

In Northwestern Municipal Association v United States, 99 F.2d 460 1938, the taxpayer claimed that it was a tax-exempt business league, not organized for profit. The court held that the taxpayer was organized to deal in municipal securities and that it conducted the regular business of brokers and investment bankers ordinarily carried on for profit. The court held that the taxpayer's primary purpose, to assist members in the collection of municipal debts, provided benefits to individual shareholders. The court held, therefore, that the taxpayer was not an exempt business league.

In General Contractors' Association of Milwaukee v United States, 202 F.2d 633, 1953, the plaintiff corporation was an association of general contractors with the purpose of promoting the building industry. Plaintiff operated a bureau that supplied engineering reports and surveys to its members. The court held that plaintiff corporation was not a business league entitled to exemption from income taxation under the Internal Revenue Code. The court found that plaintiff's operation of a bureau, which provided a service to its members was a primary activity that was for profit.

In Credit Managers Association of Northern and Central California v Commissioner, 3 T.C.M. 385 (1944), the applicant organization was operating primarily in the business of reporting credit information for fee service to its members, which the Court felt was clearly engaging in a regular business ordinarily carried on for profit. Moreover, the organization was not primarily engaged in the general improvement of business conditions in "one or more lines of business," but concerned itself with "particular services for individual persons." The services supplied were of a sort vital to its members in the operation of their business, which they would have been compelled to purchase elsewhere or supply themselves at a greater cost, but for the existence of the organization. The Court felt that the statute did not extend exemption to an organization existing primarily for the convenience of its members but only to organizations operating principally for a public or quasi-public purpose.



In Evanston-North Shore Board of Realtors v. United States, 320 F.2d 375 (Ct. Cl. 1963), the plaintiff was already exempt as a real estate board. When it added the operation of a multiple listing system to its activities, the Internal Revenue Service concluded that a real estate board, whose primary service was the operation of a multiple listing service, was not entitled to exempt status. Consequently, the plaintiff was subsequently notified that its exemption was to be terminated. The court upheld this determination and dismissed the suit, finding that the operation of plaintiff's multiple listing system could not be regarded as directed to the improvement of business conditions in the real estate market within the meaning of the regulations, but rather constituted the performance of a particular service for brokers participating in the service. The court mentioned an analogy between the operation of a multiple listing service and of a stock or commodity exchange. Both are means of bringing buyers and sellers together to facilitate the sale of property. Both provide a genuine benefit to persons desirous of buying and selling property and to the brokers who deal in such property. Furthermore, in its discussion of Treas. Reg. 1.501(c)(6)-1, the court stated that an association engaged in furnishing information to prospective investors, to enable them to make sound investments, is not a business league, since its activities do not further any common business interest, even though all of its income is devoted to the purpose stated.

In Rev. Rul. 72-211, 1972-1 CB 150, an organization formed to promote the interests of its members and persons or firms related to the building and construction industry by providing a plan room and news bulletin available to the entire industry qualifies for exemption under section 501(c)(6) of the Code. The principal activity of the organization is the operation and maintenance of a plan room. Plans and specifications for construction projects being bid in the area are filed in the plan room by architects, builders, and government agencies. The plan room is open for use by all individuals and businesses in the industry, nonmembers as well as members. Providing a news bulletin and plan room available to the entire building and construction industry without charge improves the business conditions of that line of business because it makes information on construction projects freely available to the construction industry as a whole. Since the plans are generally already in the hands of the major contractors constituting most of the membership in the organization, the service performed by the plan room does not result in a significant convenience or economy for member contractors. Accordingly, it is held that the organization does not by reason of such activities render particular services to individuals of the kind proscribed by section 501(c)(6) of the Code and section 1.501(c)(6)-1 of the regulations and, since the organization is otherwise qualified there under, it will be exempt from Federal income tax.

In Rev. Rul. 66-223, 1966-2 CB 224, the operation of a bid registry which is open to all individuals or firms in a particular trade or industry and which has been established and operated as a means of encouraging fair bidding practices within the industry is an appropriate activity for an association which otherwise meets the requirements for exemption under section 501(c)(6) of the Internal Revenue Code of 1954. The organization is a nonprofit corporation made up of individuals, firms, and corporations in a particular industry. Its primary activity is the operation of a bid registry, established to encourage fair bidding practices in the industry. The activity consists of receiving contract bids in sealed envelopes from subcontractors. No one may examine bids placed with the registry until the bids are publicly opened. The subcontract is then awarded to the lowest qualified bidder. All members of the industry, whether or not they are members of the association, may participate in this activity. In conducting the bid registry the organization is engaged in an activity directed to the improvement of business conditions in a particular industry as a whole as distinguished from the performance of particular services for individual persons. Therefore, such activity is appropriate for an organization which is otherwise exempt under section 501(c)(6) of the Code.

#### Application of Law

is like the organization that was denied exemption under section 501(c)(6) of the Code in Rev. Rul. 68-264. That organization was incorporated to operate as its primary activity a traffic bureau for members and nonmembers as a service in the shipment of their goods, thus resulting in savings and simplified operations to the members and nonmembers.

is operated to provide investment opportunities to its members that they might not be able to acquire on their own, thus affording them the chance for significant profits

Like the organization described in Rev. Rul. 59-391, your activities serve to bring together persons wishing to make mutually profitable business "deals." You introduce persons wishing to make profitable investments to companies seeking investors. The fact that you do not actually handle the investment transactions does not alter the nature of this activity.

You are like the organization in Rev. Rul. 67-182 that was denied exemption because they were making specialized information available to their members. This served as a convenience and economy in the conduct of their businesses thus constituting the performance of particular services for individual persons. You stated in your membership agreement that members would be introduced to and informed of companies for possible investment thus providing particular services for individuals.

You are like the organization in Rev. Rul. 56-65. prescreens and coaches the companies that are permitted to present their business plans to the members, thus affording them a valuable service. Not only are members receiving important information that would not be available to the average investor, but also they are receiving it from companies that have been prescreened and could possibly offer them the best investment opportunities.

In Northwestern Municipal Association v United States, the court held that the taxpayer's primary purpose, to assist members in the collection of debts, provided benefits to individual shareholders. is similar to the organization in this case in that it assists members by introducing them to entrepreneurs that they could potentially invest in thus providing benefits to their individual members.

In General Contractors' Association of Milwaukee v United States, the court found that plaintiff's operation of a bureau, which provided a service to its members was a primary activity that was for profit. is similar to this organization in that their primary activity is that for profit. You state that you are not a venture fund, an investment bank, a broker dealer, investment clearing-house nor an investment advisor, but rather a forum in which women may be educated on aspects of investment and business, as well as introduced to and informed of companies for possible investment. You are educating your members on aspects of investment and business, but so much effort is going into the acquisition of entrepreneurs for potential investment by the members that this activity would have to be considered your primary activity.

In Credit Managers Association of Northern and Central California v Commissioner, the organization supplied credit information used by its members in the operation of their business, which they would have been compelled to purchase elsewhere or supply themselves at a greater cost, but for the existence of the organization. The services that you provide for your members increases the potential success of an investment opportunity for the members and are of the sort that the average investor could acquire only at greater cost.

In Evanston-North Shore Board of Realtors v. U.S., the court indicated that the operation of a multiple listing service was similar to that of a stock or commodity exchange in that both are means of bringing together buyers and sellers for the purchase of property. brings together the entrepreneurs that are searching for funding and the investors who are looking for companies to invest in, thus benefiting both parties.

In Rev. Rul. 72-211 an organization formed to promote the interests of its members and persons or firms related to the

building and construction industry by providing a plan room and news bulletin available to the entire industry qualifies for exemption under section 501(c)(6) of the Code. is different from this organization in that, to qualify for membership, the individual must be an accredited investor or a sophisticated investor. definition of an accredited investor is a natural person whose individual net worth, or joint net worth with that person's spouse at the time of her purchase exceeds \$ ; or a natural person who had an individual income in excess of \$ in each of the two most recent years or joint income with that person's spouse in excess of \$ in each of those years and who reasonably expects to reach the same income level in the current year. Your definition of a sophisticated investor is a person who does not meet the net worth or income criteria of an accredited investor, but has sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of investment in restricted securities of a private enterprise. In the entire universe of investors, these membership requirements would probably only apply to a small population of and would provide benefits not only to the members but also to the entrepreneurs looking for capital. Thus, would not be including the vast majority of investors.

In Rev Rul 66-223, an organization that operates a bid registry which is open to all individuals or firms in a particular trade or industry meets the requirements for exemption under section 501(c)(6) of the Internal Revenue Code of 1954. differs from this organization in that many women investors would not be qualified to join their organization. As discussed above, is very selective in who you admit. Thus, the vast majority of women investors may not be able to participate in the investment opportunities afforded the members of

#### Applicant's Position

You state in a response letter dated

You provided information on similar organizations that you feel would support qualification as a tax-exempt entity. However, these organizations are not the subject of this determination.

Service Response to Applicant's Position

does educate investors to become more knowledgeable and confident investors. You state that

. The members may not benefit directly from the organization's revenue, but they do benefit from the opportunity to earn profits on their investments. The analysis of and presentation by companies seeking funding affords the member an opportunity to invest that the member would ordinarily have to accomplish on her own. It also allows the member to make an informed decision on investing in

thus increasing her chances for greater profits. This service differs from merely providing education upon factors involved in making sound investment decisions. While you may not recommend individual companies, you "screen" companies and only allow certain ones the opportunity to address your members. These presentations are for the purpose of bringing together investors and businesses seeking capital, with the goal of increasing the members' investment profits and minimizing the risk of individual losses.

You state that the organization has been

. Regardless of whether there are many investors "chasing" fewer companies to invest in or many companies chasing a smaller capital pool, the fact remains that the companies seeking funding also benefit from this situation. They are giving presentations to investors with capital to invest.

The services that you provide to your members are similar to that of the operation of a regular business of a kind ordinarily carried on for profit.

Conclusion

primary activities are the provision of particular services to individual members. These activities further the business interests of the individual members and the companies seeking funding. Under IRC 501(c)(6), no part of an organization's net earnings may inure to the benefit of any private individual, its primary activity cannot be performing particular services for members, and its purpose must not be to engage in a regular business of a kind ordinarily carried on for profit. Therefore, is not exempt under section 501(c)(6) of the Internal Revenue Code.

20044043 E

Form 6018  
(Rev. Aug. 1983)Department of the Treasury - Internal Revenue Service  
Consent to Proposed Adverse Action  
(All references are to the Internal Revenue Code)Case Number  
603234029

Date of Latest Determination Letter

Employer Identification Number

Date of Proposed Adverse Action Letter

MAR 29 2004

Name and Address of Organization

I consent to the proposed adverse action relative to the above organization as shown below. I understand that if Section 7428, Declaratory Judgements Relating to Status and Classification of Organizations under Section 501(c)(3), etc. applies, I have the right to protest the proposed adverse action.

## NATURE OF ADVERSE ACTION

☒ Denial of exemption☐ Revocation of exemption, effective.☐ Modification of exemption from section 501(c)( ) to section 501(c)( ), effective☐ Classification as a private foundation described in section 509(a), effective☐ Classification as an private operating foundation described in sections 509(a) and 4942(j)(3), effective for☐ Classification as an organization described in section 509(a)( ), effective☐ Classification as an organization described in section 170(b)(1)(A)( ), effective

If you agree to the adverse action shown above, please sign and return this consent. You should keep a copy for your records.

If you sign this consent before you have exhausted your administrative appeal rights, you may lose your rights to a declaratory judgement under section 7428.

(Signature instructions on Back)

Name of Organization:

Signature and Title

Date

Signature and Title

Date